CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Wednesday, 19th July, 1967, at 10 a.m.

Present:
The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. GEORGE BROWN, M.P., Secretary of State for Foreign Affairs
(items 1 and 2)
The Right Hon. JAMES CALLAGHAN, M.P., Chancellor of the Exchequer
The Right Hon. HERBERT BOWDEN, M.P., Secretary of State for Commonwealth Affairs
The Right Hon. DENIS HEaley, M.P., Secretary of State for Defence
(items 1 and 2)
The Right Hon. WILLIAM ROSS, M.P., Secretary of State for Scotland
The Right Hon. DOUGLAS JAY, M.P., President of the Board of Trade
The Right Hon. ANTHONY GREENWOOD, M.P., Minister of Housing and Local Government
The Right Hon. R. J. GUNTER, M.P., Minister of Labour
The Right Hon. BARBARA CASTLE, M.P., Minister of Transport
The Right Hon. MICHAEL STEWART, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. LORD GARDINER, Lord Chancellor
The Right Hon. RICHARD CROSSMAN, M.P., Lord President of the Council (items 1 and 2)
The Right Hon. ROY JENKINS, M.P., Secretary of State for the Home Department
The Right Hon. PATRICK GORDON WALKER, M.P., Minister without Portfolio
The Right Hon. ANTHONY CROSLAND, M.P. Secretary of State for Education and Science
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal
The Right Hon. KENNETH ROBINSON, M.P., Minister of Health (items 2 and 3)
The Right Hon. REGINALD PRENTICE, M.P., Minister of Public Building and Works (item 3)
The Right Hon. RICHARD MARSH, M.P., Minister of Power
The Right Hon. ANTHONY WEDGWOOD BENN, M.P. Minister of Technology

The following were also present:
The Right Hon. ARTHUR BOTTOMLEY, M.P., Minister of Overseas Development (item 3)
The Right Hon. MARGARET HERBISON, M.P., Minister of Social Security (items 2 and 3)
The Right Hon. JOHN DIAMOND, M.P., Chief Secretary, Treasury (items 2 and 3)
The Right Hon. KENNETH ROBINSON, M.P., Minister of Health (items 2 and 3)
The Right Hon. REGINALD PRENTICE, M.P., Minister of Public Building and Works (item 3)
The Right Hon. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury (items 1 and 2)
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Secretariat:
Sir Burke Trend
Mr. P. Rogers
Miss J. J. Nunn
Mr. L. Errington
Mr. K. Barnes

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1. The Cabinet had before them a note by the Minister of Power (C (67) 134) on oil supplies.

The Minister of Power said that the situation was broadly unchanged since his report the previous week. Stocks had increased in the week ended 10th July by 0.3 million tons and the estimates of stock for the end of August and the end of September had now been revised upwards, the forecast for the end of September being a million tons (five days' supply) higher than had been estimated the previous week. It seemed certain that we should at least not fall below these estimates and in the event the position might prove to be somewhat better. The really serious issue was the shortage of naphtha, which was primarily a world-wide commodity shortage rather than a difficulty arising from relative prices, or solely from the recent crisis in the Middle East. Discussions were now taking place with the industries concerned on the extent to which consumption could be reduced, or different specifications could be adopted which might ease the problem of supply. He would circulate a paper to the Cabinet for consideration in the following week dealing with the oil supply problem generally, the implications for our balance of payments and rationing.

In discussion it was suggested that the possibility of allocating available supplies of naphtha among the industries concerned should be further considered by the Minister of Power.

The Prime Minister said that the Cabinet would wish to consider these issues further on the basis of the Minister's paper the following week. It would also be necessary to keep the situation under review during August and he would consider with the First Secretary of State and the Minister of Power how this could best be done.

The Cabinet—

(1) Invited the Minister of Power to consider the practicability of a system of allocation of available supplies of naphtha.

(2) Took note that the Prime Minister would consider, in consultation with the First Secretary of State and the Minister of Power, the best means of keeping under review throughout August the question of our oil supplies.

2. The Cabinet considered a note by the Minister without Portfolio (C (67) 135) to which was annexed a draft statement on family endowment.

The Minister without Portfolio recalled that, at their meeting on 13th July, the Cabinet had invited him, in consultation with the Ministers principally concerned, to prepare a draft statement on family endowment, presenting an increase of family allowances in conjunction with some extension of the present arrangements for the remission of charges for school meals and welfare milk and
including, for consideration, a reference to further study of a housing allowance. The draft statement which he had prepared accordingly assumed certain decisions on policy. In particular it assumed that there would be a uniform increase of family allowances for each child attracting such an allowance from April 1968, but that this should be preceded by an interim increase from the end of October of 5s. a week for the fourth and subsequent children of families. The interim increase would be subsumed in the subsequent general increase. The statement also assumed that the charge for school meals would be increased from April 1968 from Is. to 1s. 6d. and that the price of welfare milk would similarly be increased from 4d. to 6d. a pint; but that all fourth and subsequent dependent children should qualify for free school meals without test of income; and that all third and subsequent children should qualify for free welfare milk tokens, an expectant mother counting as a child for this purpose. The statement also made reference to the provision of help for educationally deprived areas, although a final decision on this must await the outcome of the review of public expenditure. The statement made reference to three possible increases in family allowances from April 1968—5s., 7s. and 10s. There had been some difference of view among the Ministers principally concerned about these but the preponderating view had favoured an increase of 7s. This would cost, net of tax and other adjustments, £87 million in a full year, compared with a cost of £62 million for a 5s. increase, and £121 million for an increase of 10s.

The Chancellor of the Exchequer said that a 5s. increase in family allowances would exceed the 3s. 7d. required to compensate for the increase in prices since 1956, when family allowances were last increased. A 7s. increase was more than equivalent to the rise in average earnings since 1946, when the family allowance scheme was introduced. A 10s. increase would bear no particular relation to any movement of prices or earnings. An increase in family allowances would be generally unpopular and would not concentrate help sufficiently on those who needed it most; in particular it would not help the one child family. Further, any increase in expenditure on family allowances must necessarily restrict the possibility of making other, perhaps more desirable, improvements in social security provision, for example, through lowering the age limit for widow's pension, the provision of constant attendance allowances for the chronic sick, or the improvement of increments for deferred retirement. For these reasons and in view of the prospective increases in public expenditure generally, he could not support an increase of more than 5s. in family allowances.

The Minister of Social Security said that an increase of less than 10s. in the rate of family allowances would have an inadequate effect on families whose incomes were below the supplementary benefit level. Such families were unlikely to avail themselves of the improved arrangements for claiming free school meals to any greater extent than at present. Increases of 5s. or 7s. would raise to supplementary benefit level only 35 per cent and 44 per cent respectively of families with incomes at present below it. An increase of 10s., however, would bring up to supplementary benefit level 57 per cent of the families.
and 65 per cent of the children whose incomes were deficient in this way. An increase of only 5s. would, after taking account of the proposed increase in school meals, confer no net benefit on families with incomes above supplementary benefit level if they had two children at school age; indeed, if they were liable to income tax, their net income would be reduced. Even an increase of 7s. would confer insufficient improvement in these cases. The net cost of increases of 5s. or 7s. would in any event be higher than estimated, since it would not be justifiable to make the equivalent reductions in the amounts of national insurance dependency allowances which would be possible given a 10s. increase of family allowances. There was widespread expectation of an increase of 10s. and she could not accept the case for any smaller increases. Increases of only 5s. or 7s., not financed on "give-and-take" principles, would unduly benefit the wealthy without conferring sufficient benefit on the poorest families.

In discussion of the amount of the increase in family allowance, there was some support for the view that a 5s. increase would, when account was taken of the increase in the charge for school meals, compensate insufficiently for the increase in prices since 1956, although it was pointed out that larger families, who thereby qualified under the new arrangements for the remission of charges, would benefit considerably. On the other hand, an increase of as much as 10s. would present considerable difficulties in relation to public expenditure unless financed on "give-and-take" principles, involving, for families liable to the standard rate of income tax, an equivalent reduction in their income tax child allowances. It was pointed out that, since school meals and welfare milk were an integral part of family endowment, the cost of the increase in family allowances could be offset by the net saving of £25 million a year from the increase in the charges for school meals and welfare milk, and therefore that the combined net cost of the proposals, with a 7s. increase of family allowances, would be close to the upper limit of additional expenditure on family endowment (£60 million) assumed for the purposes of the proposed adjustments of public expenditure in C (67) 125. The savings to be found from educational services should also be correspondingly reduced. In the light of all the considerations, the balance of view was that family allowances should be increased by 7s. a week bringing the present 8s. allowance up to 15s. It was pointed out, however, that the problem illustrated the difficulties of attempting to consider changes of this kind in isolation from related changes in the tax structure, and it was agreed that the Cabinet should on some future occasion consider in more detail the question of the relationship between expenditure and taxation and general problems affecting the planning of the Budget.

In further discussion it was suggested that there was little purpose in increasing family allowances in two stages, and that either the general increase of 7s. should take effect in October instead of April 1968, or that there should be no interim increase in October. However, it was pointed out that a general increase in October could not be presented as selective in its effect, since changes in income tax
allowances could not be made until April. Furthermore, it would be undesirable to put an increase in family allowances into payment and subsequently to diminish its value by tax adjustments. On the other hand the interim increase should not be deferred, since it was desirable that some steps should be taken to alleviate family poverty before the winter.

In further discussion of the draft statement, a number of amendments were agreed and the following main points were made:

(a) Paragraph 2. While it was agreed that there should be a 5s. increase in family allowances for fourth and subsequent children, to take effect at the end of October in the current year, this should be presented as an advance of part of the general increase to benefit the most needy families before the winter. Accordingly, the order of paragraphs 2 and 3 should be reversed.

(b) Paragraph 3. It was agreed that the increase from April 1968 should be 7s. but it should be made clear that this applied to all existing family allowances and did not therefore include the first child in the family.

(c) Paragraph 4. It was suggested that the order of the final two sentences should be reversed. It was questioned, however, whether it was necessary or desirable to refer specifically to adjustment of income tax child allowances which might create a misleading impression of the extent to which families with children would be effected. On the other hand, it was pointed out that, in the absence of any such reference, the proposed increase in family allowances would be indistinguishable from an unselective increase financed from general taxation and the Government would be pressed to say whether or not they had abandoned the “give-and-take” approach which had been widely canvassed. Although the increase could not be presented as a “give-and-take” scheme and the Chancellor’s budgetary freedom should not be prejudiced, it was essential to present it as selective in its effect. It might be preferable to state that the Government’s objective was to improve the incomes of families in need and to indicate that the financing of the measures to be adopted for this purpose would naturally involve consideration of, among other things, adjustment of the income tax allowances.

(d) Paragraph 5. The first part of this paragraph which referred to the improved administrative arrangements for providing free school meals and welfare milk, should form a separate paragraph. It should be reworded to take account of the fact that executive action was a matter for local authorities. Reference should also be made to the fact that the income limits below which families could get free school meals and welfare milk would be adjusted in line with the increases to be made in supplementary benefits. Subject to decisions to be taken under the review of public expenditure, reference might also be made to the withdrawal of free milk in secondary schools. The net saving from the changes affecting school meals and milk should be given and set against the cost of the family allowance increase to give a combined net total.

(e) Paragraphs 6 and 7. While the possibility of introducing a housing allowance in the longer term, and perhaps in a wider context, should be considered by the Minister of Housing, no reference to
this possibility should be included in the draft statement in order to avoid arousing public expectation. Reference should, however, be made to the rate and rent rebate schemes and to the encouragement which was being given to local authorities to extend the latter.

(f) Paragraph 8. A decision whether or not to refer to help for the educationally deprived areas should await decisions on the review of public expenditure. If the reference were included there should also be a reference to the application of additional funds in Scotland.

The Prime Minister, summing up the discussion, said that the Cabinet were, on balance, agreed that the weekly rate of family allowances should be increased by 7s. from April 1968. There should, however, be an interim increase of 5s. for the fourth and subsequent children of families from the end of October in the current year. The charge for school meals should be increased by 6d. and the price of welfare milk by 2d. a pint, but fourth and subsequent children should qualify for free school meals and third and subsequent children under five years (including for this purpose an expectant mother) should qualify for free welfare milk irrespective of income. He would discuss with the Chancellor of the Exchequer the rewording of paragraph 4 of the draft statement annexed to C (67) 135 in the light of the points made at (c) of their discussion. Subject to this and to the points agreed at (a), (b), (d), (e) and (f) of their discussion, the Cabinet approved the draft statement, which should be revised by the Minister without Portfolio in consultation with the Ministers principally concerned. The timing of the statement, which should be made in the House of Commons by the Minister without Portfolio, should be arranged in consultation with the Lord President.

The Cabinet—
(1) Took note, with approval, of the summing up of their discussion by the Prime Minister.
(2) Invited the Minister without Portfolio, in consultation with the Ministers principally concerned, to revise the draft statement on family endowment annexed to C (67) 135, in accordance with the summing up of their discussion by the Prime Minister.
(3) Invited the Minister without Portfolio, in consultation with the Lord President of the Council, to announce the Government's proposals on family endowment in the House of Commons in the terms of the statement settled in accordance with Conclusion (2).

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3. The Cabinet resumed their consideration of a memorandum by the Chancellor of the Exchequer (C (67) 125) on proposed adjustments in public expenditure programmes to 1970-71. They also had before them the following memoranda by the Chancellor of the Exchequer which had been previously considered:

C (67) 97—Public Expenditure: Civil Reviews: Health and Welfare
The Prime Minister said that the Cabinet at their previous discussion had completed a preliminary review of possible savings on the main blocks of expenditure with the exception of social security. It would now be convenient to consider the social security programme before proceeding at their meeting on the following day to decisions on the total saving in expenditure to be achieved by 1970–71 and its distribution between the different spending programmes.

The Chancellor of the Exchequer said that increases in National Insurance benefits and other social security payments necessarily involved higher taxation, whether this took the form of contributions or of ordinary central Government taxation. It was therefore necessary to seek some reduction in the planned rate of increase in social security benefits. The main issue was whether these benefits should be raised in line with the increase in living costs, or in line with the rise in real earnings, or whether the increase should be pitched at some intermediate point. He proposed that, following the uprating of benefits which it was already agreed would take place in October 1967, there should be a further uprating in October 1969 when benefits should be increased by an amount sufficient to compensate fully for price increases up to that time and in addition for half the rise in real earnings (which were expected to increase at 3 per cent per annum). This would effect a saving in 1970–71 of nearly £70 million as compared with the expenditure at present planned.

The Minister of Social Security said that the social security programme could be distinguished from other spending programmes in two respects. First, even taking account of the reductions which had been proposed for other programmes, the Government would still be able to claim in 1970–71 that their achievements in these fields represented an improvement on those of the previous Administration; it would not be possible to make such a claim in respect of social security if the reduction proposed by the Chancellor of the Exchequer were accepted. Second, all programmes were costed in terms of constant prices and in this way allowance was automatically made for inflation of the planned totals of expenditure because of increases in wages and salaries where these constituted a part of a programme.
of expenditure. The extent of this inflation was far less in the case of social security, where wages and salaries constituted less than 4 per cent of total expenditure, than it was in the case of several of the other main spending programmes where wages and salaries represented a much larger proportion of expenditure, amounting in the case of health services, for instance, to as much as 70 per cent. Having regard to the extent to which wages and salaries were expected to rise in the years up to 1970–71, this constituted a significant difference between the real cost of the social security programme and that of other programmes, which should be taken into account in deciding how the total savings should be distributed. Moreover, the social security programme had already made a considerable contribution towards reductions in planned expenditure in 1970–71. The uprating of insurance benefits in October 1967 would fall short of what would be needed to give pensioners a fair share of improved living standards and this represented a saving in expenditure of £46.5 million. The social security programme was different from other programmes in that it was self-adjusting, in the sense that a lower rate of growth of the economy with a slower increase in real earnings automatically resulted in reduced expenditure on social security. The importance of this had already been demonstrated since, because of the lower growth rate now expected, the estimated expenditure on social security in 1970–71 had been reduced by £124 million as compared with the estimate made in 1966. The Cabinet had accepted in their previous discussions that a given expenditure on transfer payments involved a much smaller call on real resources than an equivalent expenditure on goods and services. While due weight had been given to this consideration in respect of some other programmes, it did not appear to have been taken into account in the proposal for a reduction in the social security programme. If that reduction were accepted, the effect would be to widen the difference between the standard of living of the old, the sick and the disabled and that of the rest of the community. It had been suggested that the cost of provision for family endowment should be met from savings on social security, but the net effect of this would simply be to bring about a redistribution of income within the poorest section of the community without affecting the better-off. The planned expenditure on social security made no allowance for any improvements other than the uprating of existing benefits.

In discussion it was pointed out that, if the proposed reduction were accepted, the percentage increase in expenditure on social security (including the proposed additional expenditure on family endowment) between 1967–68 and 1970–71 would be substantially less than the corresponding increase in some of the other major programmes, notably the roads programme. This suggested some imbalance. On the other hand it was argued that the Government should give priority to those programmes, such as roads, which directly assisted economic growth. As regards the argument that if the proposed reduction were accepted the Government’s achievements in social security would compare unfavourably with those of the previous
Administration, their achievements in many other fields would represent a substantial advance but there could not be an advance in all fields if the rate of economic growth were insufficient to sustain this. Despite this consideration, it was still the case that, if the reduction proposed by the Chancellor of the Exchequer were accepted, the Government's record on social security up to 1970–71 would bear comparison with that of their predecessors; and this could be effectively demonstrated.

The Cabinet—
Agreed to consider on the following day, in the light of C(67)125, the total saving in expenditure to be achieved by 1970–71 and its distribution among the different spending programmes.

Cabinet Office, S.W.1,